



THE GLOBAL IMPACT OF THE GOLDEN ARCHES



McDonald's has achieved substantial success over the years, which is exemplified by its impact throughout the world. Many people know about and are customers of McDonald's. For example, a recent survey found that 88 percent of people recognize the golden arches and associate them with McDonald's. This is likely because McDonald's touches a lot of people in a year. Each day, about 68 million people eat at a McDonald's, which equates to almost one percent of the world's population. In the United States alone, McDonald's hires approximately one million employees per year. Approximately 12 to 13 percent of all U.S. workers have been employed at McDonald's at one time (including such famous people as actress Sharon Stone, singer, Shania Twain and comedian Jay Leno). Given that McDonald's includes a toy in about 20 percent of its sales, it is the world's largest distributor of toys.

Finally, McDonald's serves about one billion pounds of beef annually in the United States, which requires approximately 5.5 million head of cattle.

McDonald's is larger and has been more successful in the market than its close competitors, Burger King and Wendy's, as well as other large competitors for the fast food customer, such as Subway and Starbucks. It has been estimated that McDonald's has about 17 percent of the limited service restaurants in the United States. Its success against competitors is demonstrated by the results of a recent review of the specialty coffees offered by fast food outlets. McDonald's McCafé was rated higher than the "gourmet" coffees sold by Burger King (a new entrant in this product category), Wendy's, Subway, and 7-Eleven. In fact, McCafé even stole some customers from Starbucks when it was first offered by McDonald's.

McDonald's made a decision early to move into international markets and now one can find the golden arches

in many countries across the world. However, its success has created a company of such size and reach that it is also easy to criticize. For example, in 2012 it created an advertisement that received acclaim because it included farmers and ranchers who supplied the food to McDonald's. The evaluations showed that it was perceived to be authentic. Early responses from the public were positive but over time the tweets became more negative with people voicing criticisms of the company and its food. It especially has been criticized because of its supposed contribution to the obesity problems in the United States.

McDonald's has tried to respond to this criticism and the public's concerns about obesity by offering more healthy food alternatives such as salads, chicken, and fish and by providing the amount of calories in its foods on their packaging. McDonald's now serves more Happy Meals with Chicken McNuggets than with hamburgers.

It also offers apple slices in place of French fries. It recently has introduced Fish McBites following its popular entry of Chicken McBites. In addition to providing new food products for customers, McDonald's now offers Wi-Fi, which has been particularly popular with students.

Even with all of its success and rapid responses to criticism, McDonald's must always be prepared to react to negative outcomes. For example, while its global sales revenue in 2012 increased by 6.7 percent over 2011 sales, early sales in 2013 have been discouraging. Sales in January dropped significantly in Asia, the Middle East, and Africa. It also has experienced recent sales declines in Europe, especially Germany and France. Some of these reductions in sales reflect general economic conditions with which McDonald's must regularly cope with intensifying competition from regional and global rivals. These results suggest that its global reach has helped the firm in many ways (massive economies of scope, recognition in the market) but also means that it must deal with geographic economic differences and varying competitive forces across the globe.

Sources: K. Mayo & V. Wong, 2013, Who serves the best fast-food coffee? *Bloomberg Businessweek*, March 4, 76–77; C. Choi, 2013, McDonald's sales fall with tough year ahead, *Bloomberg Businessweek*, www.businessweek.com, February 8; C. Choi, McDonald's to put "Fish McBites" in happy meals, *Bloomberg Businessweek*, www.businessweek.com, February 4; A. Troianovski, 2013, The web-deprived study at McDonald's, *Wall Street Journal*, www.wsj.com, January, 28; G. Lubin & M. Badkar, 2012, 17 facts about McDonald's that will blow your mind, *Yahoo! Finance*, <http://finance.yahoo.com>, December 7; K. O'Brien, 2012, How McDonald's came back bigger than ever, *New York Times*, www.nytimes.com, May 4.

As we see from the Opening Case, McDonald's is highly successful because of its strategy to grow globally and gain massive economies of scale (keeping costs low) that provide widespread name/brand recognition. These attributes along with other critical strategic decisions (e.g., adding new food and drink products such as salads, Chicken and Fish McBites, and McCafé) have enhanced its ability to compete against other major fast food restaurants. Therefore, we can conclude that McDonald's has achieved *strategic competitiveness*. It clearly has been able to earn *above-average returns*. Yet McDonald's has received its share of criticism because of its perceived contribution to the childhood obesity problem in the United States. In addition, it continues to cope with global economic problems and fierce competition. For example, Burger King and Wendy's now serve gourmet coffee in response to the success of McDonald's McCafé. The top management of McDonald's has used the strategic management process (see Figure 1.1) as the foundation for the commitments, decisions, and actions they took to pursue strategic competitiveness and above-average terms. The strategic management process is fully explained in this book. We introduce you to this process in the next few paragraphs.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. A **strategy** is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. When choosing a strategy, firms make choices among competing alternatives as the pathway for deciding how they will pursue strategic competitiveness.¹ In this sense, the chosen strategy indicates what the firm *will do* as well as what the firm *will not do*.

As explained in the Opening Case, McDonald's has been a leader in its industry as one of the first fast food companies to enter global markets and is now a highly global business. However, it continues to change its product line in response to a changing environment. In fact, to adapt to local environments, it sometimes makes major changes. For example, it has changed its name to Macca in Australia because people there often abbreviate names to avoid pronouncing multiple syllables. So, McDonald's shortened its name to two syllables (from three) and used its highly recognizable golden arches as the symbol of the firm.²

A recent study conducted to identify the factors that contribute to the success of top corporate performers showed why McDonald's has been successful. This study found that the top performers were entrepreneurial, market oriented (effective knowledge of the customers' needs), used valuable competencies, and offered innovative products and services.³ McDonald's displays several of these attributes. It clearly understands its market and

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- Determine two or three key strategic initiatives of this not-for-profit organization. Most not-for-profits, particularly well-known ones, are good about posting their strategic plans on their Web sites.
- Now perform a macro environmental analysis, and list all known or expected stakeholders for the organization. You should place them in the context of product, market, and organizational stakeholders.

Part Two

Now you are ready to start thinking critically about the organization and the challenges it faces among its stakeholders as it attempts to roll out its strategic initiatives.

- For each strategic initiative that the organization has announced, analyze each stakeholder for the organization, and list areas in which the proposed strategy is likely to be supported, or not, by that particular stakeholder.
- For the purpose of presenting to the class, organize your list so as to be able to present those strategies upon which expected support is likely to be gained and those strategies upon which support is likely to be discouraged.
- Present to the class your recommendation for how the organization should proceed. For instance, if perceived support is critical to the successful strategic initiative but the strategy is likely to be viewed negatively by the stakeholder, provide some potential actions that the organization might take to mitigate the negative reaction or, alternatively, that might gain the stakeholders' support.

Conflicts are normal among organizational stakeholders, and deciding which must be attended to and at which time for which strategic action is a critical strategic leadership activity for every firm.

VIDEO CASE



BRAZIL: AN EMERGING ECONOMY WITH STRATEGIC COMPETITIVENESS

Brazil had the lowest GDP growth rate among BRICS countries (Brazil, Russia, India, China and South Africa) in 2012, according to by the Organization for Economic Cooperation and Development (OECD). The OECD said Brazil's economy grew by only 1.3 percent. A country rich in natural resources and sophisticated in hydropower and biofuels, Brazil has emerged with strategic competitiveness. Being one of the greenest economies, Brazil is one of the largest producers of iron ore and one of the leading exporters of many popular commodities. After surviving historic financial collapse, Brazil has risen to have a strong manufacturing base, and the country's poor now have more purchasing power. (Please note that Brazil's current president is Dilma Rousseff.)

EXERCISE 2: PUTTING ABOVE AVERAGE RETURNS TO THE I/O MODEL TEST

For some time, the Industrial Organization (I/O) model of above-average returns has adopted as principal that the primary source of above average returns rested with the industry in which a firm competed. However, the strength of this model has been brought into question with the rise of rapid technological and business model innovation. Additionally the link between leadership effectiveness and the I/O model seems incomplete.

Working in teams, pick one firm from the *Fortune* 500 "Top Companies: Most Profitable Firm" annually published in CNNMoney (<http://money.cnn.com/>). Pick a firm you find of interest that represents as close as possible a single industry (i.e., automobiles, oil and gas, telecommunications) and avoid conglomerates (i.e., General Electric).

Following your text descriptions of the I/O model, identify:

- Identify the external environment pressures and constraints.
- List the similar strategically and relevant resources available to other firms competing in the industry.
- What resources are highly mobile across firms and think through those that you believe will be short-lived.
- Identify the strategies of your most profitable firm in the industry and decide if each of these are signals that management is committed to acting in the firm's best interests as shown by their profit-maximizing behavior.

Be prepared to present in class your findings. Pay particular attention to performance of closely related competitors. Does the I/O model explain well the firm's above average returns?

Be prepared to discuss the following concepts and questions in class:

Concepts

- Strategic competitiveness
- Strategy
- Hypercompetition
- Global economy
- Resources
- Capabilities
- Core competencies
- Stakeholders
- Strategic leaders